

THE DIRECTOR OF
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NOTE FOR THE DIRECTOR

1. FYI, casual reading.
2. [] comments on The Economists' account of misjudgments on Falklands.

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Vice Chairman

Attachment

[redacted]

The Economist's account of misjudgments on both sides is knowledgeable and accurate in general, although I cannot confirm its description of JIC assessments. ("It is known that these assessments played down the invasion threat.") The theme of mutual miscalculations follows closely the analysis I advanced in my initial memo of 4 April. Galtieri, in his interview with Oriana Fallachi, specifically acknowledged that the junta had discounted the possibility that the British would respond with force to the seizure of the islands and that the British reaction had surprised and dismayed the junta.

The Economist does not report the views of the British embassy in Buenos Aires, but an R. W. Apple despatch to the New York Times in early April stated that the embassy, on 26, 27, or 28 March, had warned the Foreign Office of an Argentine invasion plan. Embassy officers later complained, "They chose to ignore it entirely. It was a complete error of judgment on London's part." Apple also reported that on 1 April, the British embassy learned of the existence of what turned out to be the invasion fleet.

If Apple's information is accurate, this episode would stand as another familiar example of unwillingness of a government preoccupied with higher priority problems to hear and accept warning. In this case, of course, (assuming that the British embassy did warn between 26 and 28 March), the warning came much too late for London to take effective deterrent action.

The moral of the story (again all too familiar) is that there is no substitute for alert, premonitory analysis of intentions and that responsible intelligence and Foreign Office authorities in London were guilty of a routine failure of judgment.

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FALKLAND ISLANDS

THE ORIGINS OF A WAR



Thatcher and Carrington: someone else's crisis?

The misjudgments that led to the Falklands war

The invasion of the Falkland Islands by Argentina on April 2, 1982, and the subsequent conflict with Britain were based on three major misjudgments. The first was British: that the Argentines would not seek to take by force what they had been denied by negotiation. The second and third were Argentine: that the British would not react in turn with force and that America would not support them. Such misjudgments represented stark political and diplomatic failures. As a result, some 1,000 men have died, hundreds of millions of pounds have been expended and relations between Latin America and the countries of the North Atlantic placed in jeopardy. After the retaking of the islands this week, we look into the origins of these failures.

On April 6th, the British prime minister, Mrs Margaret Thatcher, announced the setting up of an inquiry into the first of the Falklands misjudgments. She did not elaborate on its form or chairmanship. Both have since been the subject of controversy in Whitehall and this is now certain to revive.

Inquiries into the preludes to war have always been major political events which often hurt the instigator more than those at whom they are directed. This inquiry was established in a fit of parliamentary rage, directed by politicians at those in the administration they thought were guarding British interests abroad. The civil service, and in particular the foreign

office, bitterly resented the implied accusation of negligence. This bitterness was exacerbated rather than appeased by the hounding from office on April 4th of three foreign office ministers.

The inquiry is thus emerging as a classic battle of establishment cultures: between a parliament out to expose what it sees as an overweening bureaucracy finally caught with its pants down, and a civil service equally convinced it was the cowardice and short-sightedness of politicians which brought the debacle to pass.

The chief accused at present in the dock is undoubtedly the foreign office, with the government intelligence machine seen as its accomplice. The charge

is that over a period of 17 years it had signalled to Argentina Britain's desire to be rid of the Falklands, in contradiction to the wishes of both the islanders and the British parliament. A subsidiary charge is that, when the Argentines finally tired of negotiating and decided to invade, the foreign office was taken completely 'by surprise'.

Many members of parliament and members of the cabinet have been keen to see the inquiry confine its investigations to the performance of the diplomatic and intelligence services immediately prior to the invasion. The diplomats' view, put by one of the fallen ministers, Mr Richard Luce, is that it should cover "all departments concerned . . . and be free to examine the problem in the perspective of the last 15 or 20 years".

Irrespective of the justice of the issue, British public and political opinion had persistently underrated the strength of feeling in Argentina about the Falklands. The Argentines felt, and still feel, that Britain acquired by force this distant territory on their continental shelf in an era of colonial expansionism which is now outdated. Common sense and practical communications both dictated that it should eventually belong—in some sense—to Argentina.

In 1965 the Argentines first registered at the United Nations their desire to negotiate a transfer of sovereignty, and the UN instructed both sides to begin talks. These have continued ever since. Each round (they have occurred roughly once a year) has usually been preceded by fierce sabre-rattling in Buenos Aires, including threats of invasion. But the promise of successive negotiations has forestalled military action. The islands have never been defended by more than a tiny force of marines.

The Argentines were encouraged to pursue a negotiated settlement by the fact that almost every British minister with whom they dealt came to recognise at least the de facto force of their claim. The actions of each British cabinet in turn lent further support. The first Wilson government resolutely refused to deny the claim. The Heath government signed a communications agreement with Buenos Aires, which effectively ensured Argentine control over air access to the islands. Some have taken the view that, together with the recent British Nationality Act, this agreement made the islanders "Ar-

gentine passport-holders" in all but name.

The Argentines were then encouraged to extend the Stanley airstrip, to run the islands' oil supplies and thus develop psychological links with the mainland which might overcome the islanders' determination to remain British. A minor tourist industry with Port Stanley developed and Falklanders made increasing use of Argentine schools and hospitals. Both sides assumed that sooner or later they could find a mechanism for formalising these links such that Argentina could claim "recovery of sovereignty", while Britain could protect the rights and lifestyle of the inhabitants.

The bone of contention throughout the talks with Buenos Aires has been the British insistence on self-determination for the islanders. This principle, which has underlain the process of British postwar decolonisation, is enshrined in article 73 of the UN charter, which refers to the "paramountcy" of the interests (note: not the wishes) of territories whose "peoples have not yet attained a full measure of self-government". The Argentines have always maintained that the islanders' interests necessarily lie with the nearest mainland. In a classic illustration of the ambiguity of all UN documents, the British argue that "interests" cannot be divorced from the views of the citizens concerned. To reinforce this argument, the British had recently included Falklands representatives in the talks and have formally acted only as a conduit for their wishes. The islanders' effective veto was the rock on which all settlements of the dispute foundered. (After the crisis broke, this veto was heavily qualified in ministerial pronouncements, though Mrs Thatcher has recently seemed to emphasise it again.)

Two incidents in the course of 17 years of negotiation are germane to the eventual invasion. The first is the conduct of the British government machine during a previous invasion threat in 1977. The second is the experience of Mr Nicholas Ridley in seeking to negotiate what was termed "leaseback" for the islands in 1980-81.

The events of December, 1977, are already surrounded with myth, but they provide an instructive comparison with those of March, 1982. Relations between Britain and Argentina were then approaching an all-time low. Diplomatic dealings had been broken off the year before, a British ship had been fired on, the dependency of Southern Thule had been seized and, in October, fuel supplies to the islands had been cut off. In December, a junior foreign office minister, Mr Ted Rowlands, was due to reopen talks on the Falklands in New York and this

was preceded by the usual virulent invasion talk in Buenos Aires.

Intelligence reports at the time indicated that both Belize and the Falklands were potential flashpoints, and these came to the notice of the Callaghan cabinet's defence and overseas policy (DOP) committee in November. Its members included the foreign secretary Dr David Owen, the defence minister Mr Fred Mulley and the energy minister Mr Tony Benn. Mr Callaghan and Dr Owen were strongly of the view that a hunter-killer submarine should be sent secretly as a precaution. It took two meetings of the committee to overcome the opposition of the ministry of defence, who pointed out that two frigates would also have to be sent to provide "communications and control" for the submarine. The active involvement of the prime minister and his mastery of his intelligence briefing was regarded as a decisive element in overcoming ministry of defence opposition to the decision. The submarine remained on station off the Falklands for a month. News of its presence remained secret until this year.

Nobody believes the Argentines had any knowledge of the submarine's presence (its frigates kept 400 miles away). The Rowlands negotiations went sufficiently well for the Argentines to feel they were worth continuing—working groups were set up on sovereignty and economic affairs—and the invasion threat receded. Secrecy was essential. Had the sending of the submarine been revealed it could have precipitated a pre-emptive invasion rather than deterred one. Had it been revealed afterwards it would merely have told the Argentines that next time they would have to move faster or at least risk some losses. The whole affair therefore remains a conundrum. Since the Argentines knew nothing about it, invasion was not on that occasion deterred. Yet a curious result of the incident was that the foreign office, having apparently cried "wolf" once, had weakened its case for a tripwire force next time.

Enter Mr Ridley

The British elections of 1979 put a new Tory junior minister, Mr Nicholas Ridley, into the foreign office. He paid a fact-finding visit to Latin America, including Port Stanley, in the summer. Like all his predecessors, Mr Ridley was much impressed by the need to halt the depopulation of the islands by reaching some settlement with Argentina. As the 1976 Shackleton report had indicated, this had become the prerequisite for stable development. Among the options left by the Rowlands negotiations, only one seemed to offer any chance of com-

promise between plainly antagonistic points of view: a transfer of formal sovereignty with some form of leaseback of administration. (This has misleadingly been called the Hongkong solution.)

The leaseback proposal was central to the pre-invasion politics of the Falklands. It was obviously less than the Argentines wanted, and more than the islanders would have liked. Yet on an otherwise wholly intractable issue, it did offer the Argentines the crucial point of principle which they had been seeking for over a century, sovereignty, while at the same time protecting the rights of the islanders. It was first raised as a possibility in 1977 and was clearly the solution favoured by officials within the foreign office. Mr Ridley returned from his tour determined that, if he did nothing else in his time as junior minister, he could at least heal the twin sores of Belize and the Falklands.

Independence was eventually forced on the Belizeans—so much against their will that Britain had to encumber itself with a potentially costly defence agreement (against Guatemala's sovereignty claims). The Falklanders were supported by a small but extremely forceful lobby in London which had been able to weld an alliance on the commons backbenches between right-wing defenders of Britain's overseas possessions and left-wing opponents of the Argentine military regime. The islands became the political symbol of British freedoms threatened by an increasingly authoritarian world. Their very remoteness made the principle of their self-determination all the nobler.

Undaunted, Mr Ridley took a proposal that he pursue the leaseback option to the cabinet's overseas and defence (OD) committee. The foreign secretary, Lord Carrington, supported him in this, though did little to conceal the view that it was a brave but hopeless cause. Mrs Thatcher was less tolerant. She attempted to prevent the proposal even reaching cabinet committee. She could see no reason for giving anything to the Argentines and certainly no reason for further arousing backbench sentiment already seething over Rhodesia/Zimbabwe. Mr Ridley persisted and Mrs Thatcher was forced to back down, though not before he was given what one present calls a "fearful mauling" in committee. He was permitted only to take a set of options to the islanders and consult over them. It was as unsupportive a mandate as he could have had. In retrospect, this lack of cabinet courage to back Mr Ridley in resolving the dispute, which it was clearly in Britain's long-term interest to resolve, was a major turning point. It was a classic instance of a "crisis postponed".

The options taken to the South Atlantic by Mr Ridley were for condominium

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(never a happy solution to a territorial dispute), for leaseback (over a period of years to be negotiated) or for a freeze of the status quo for a set period of time. His mission was presented as purely consultative, but the islanders were in no doubt they were being asked to accept a transfer of sovereignty. Mr Ridley's party included only the head of the foreign office's South America department, Mr Patrick Fearn, Mr Ridley's private secretary and the governor, Mr Rex Hunt, acting as chairman for public meetings held in every part of the islands. The mission was attended, however, by up to 60 Argentine journalists, giving it a flavour unlikely to allay islanders' fears.

Reports of Mr Ridley's performance are mixed. His bravery was perhaps not matched by his tact in dealing with a simple but worried people whose one security was Britain's determination to defend their loyalty. The younger and more cosmopolitan islanders tended to be sympathetic to some accommodation with Argentina; and the view was that between a third and a half of the 1,800 population might have accepted some form of leaseback. Islanders of this persuasion argue that, had Mr Ridley come down with a firm announcement that the islanders had now to rethink their future, that the British were seeking leaseback and would compensate any islander who wanted to leave, the mood might have been more constructive. But Mr Ridley had been given no such mandate by the cabinet. Both hands were tied behind his back.

In the event, the suspicions of the predominantly anti-leaseback islands council were reinforced and, offered the option of "freeze", they naturally took it. They also alerted their supporters in London that more foreign office subterfuge seemed in the air.

Mr Ridley's report back to the house of commons on December 2, 1980, was greeted with howls of outrage, not helped by his studied evasiveness on the issue of paramountcy. Every speaker from all sides of the house expressed concern at the outcome of his visit, despite his statement that "any eventual settlement will have to be endorsed by the islanders and by this house". The attitudes of MPs were well summed up by Mr Douglas Jay, who asked bluntly: "Why can't the foreign office leave the matter alone?" The question well encapsulated the politicians' approach to the Falklands problem. Mr Ridley appeared at the despatch box shattered and uncertain and many observers were astonished he should have apparently wrecked his political career on such a hopeless little venture. Two months later he had to go to New York for renewed talks with his opposite num-

ber, Mr Carlos Cavandoli, with nothing but the "freeze" option to offer the Argentines.

At these talks, Mr Ridley played one last card. Asserting yet again that no agreement could be reached without the islanders' consent, he encouraged the Argentines to talk directly with the two members of the islands council with him in New York. Mr Cavandoli promised them "most pampered region" status if they would accept Argentine sovereignty. One of the islanders, Mr Adrian Monk, said afterwards they had been offered a guarantee of a "democratic form of government, a different legal system, different customs, a different form of education. The only thing they wanted was sovereignty." As Mr Cavandoli said time and again to Mr Ridley: "Just give me something to take back home." The islanders replied they could offer nothing



Ridley: playing the last card

before the outcome of the islands council election in November. Leaseback as such was never even discussed. The Argentines rejected a freeze on talks. By now the British were blatantly stalling.

The foreign office was clearly in a hopeless position. More than a decade of talking had made no progress whatever in a negotiation which an increasing number of islanders (and British politicians) felt should never even have started. With hindsight, leaseback might have succeeded. The Argentines had indicated they regarded Britain's hinted offer of a 99-year lease as an "opening bid": had a lease ever come to the issue it would probably have been settled at between one and three generations (between the years 2000 and 2081). Mr Cavandoli was influential with the junta and it was significant that Buenos Aires press comment on Mr Ridley's options concentrat-

ed on attacking freeze and condominium, never leaseback. Indeed it is probable the Argentines had never really come to terms with the question of administration: the issue to them was sovereignty.

The failure of Mr Ridley's mission now appeared to have killed leaseback for good. British diplomacy had run out of room for manoeuvre and had reaffirmed to the Argentines that it was tied to the apron strings of the islanders and their backbench supporters. Two further events in 1981 emphasised this predicament. In September, Mrs Thatcher removed Mr Ridley from the foreign office to the treasury. Responsibility for the Falklands was transferred to Mr Richard Luce, arguably a less reckless political adventurer. Then, in November, a new islands council was elected at which the Ridley initiative was a major issue. Two representatives regarded as moderates, including Mr Stuart Wallace who had been at the New York talks, lost their seats and two hardliners were voted in instead. None of these nuances was lost on the Argentines. The February talks were due to be resumed in December, 1981. They were postponed by the fall of General Viola as head of the junta and his replacement by General Galtieri.

Enter Galtieri

Here began what the foreign office clearly felt was a respite. General Galtieri, his experienced, Anglophile and cosmopolitan foreign minister, Mr Nicanor Costa Mendes, and his economics minister, Mr Roberto Alemann, represented for the Americans the acceptable face of authoritarianism. President Reagan and especially his UN ambassador, Mrs Jeane Kirkpatrick, had openly courted the general. In return, he showed himself eager to mend his fences in America and Europe by pursuing a more liberal human rights policy. As instance of his intention to contain a dangerously inflationary economy, he even allowed Mr Alemann to cut defence spending in real terms (with the navy, significantly, taking the biggest cut). Britain's new ambassador in Buenos Aires, Mr Anthony Williams, was known as an enthusiastic supporter of the new American initiative. A real rapprochement with Argentina seemed possible. Unusually, there had been no mention of the Falklands in General Galtieri's initial speeches.

The new regime, however, turned out to be no more stable than its predecessor. There was a rising tide of Peronist activity, encouraged by the long overdue economic retrenchment begun by Mr Alemann. The Falklands talks were to be resumed in New York in February. In January, the newspaper La Prensa wrote

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(not for the first time) its now-celebrated prediction of an invasion prior to next year's 150th anniversary of British occupation of the Falklands. Mr Costa Mendes gave his negotiator, Mr Enrique Ros, the most limited of briefs to take to New York. Indeed, when he left Buenos Aires, Mr Ros had to plead with Argentine journalists asking about an invasion to "just be patient".

In New York Mr Ros was insistent for some sign of progress on the Ridley initiative. He was initially angry, in a somewhat stagey way, at what he regarded as foot-dragging on the part of the new British minister, Mr Luce. He would break off periodically and telephone Mr Costa Mendes in Buenos Aires for instructions. His basic demands were for monthly meetings to work towards a settlement, a fixed agenda including sovereignty, and a deadline of the end of the year. The negotiations, with two of the new Falkland Islands councillors present, were entirely about this procedure. On February 26th, a compromise was agreed for a "negotiating commission" meeting regularly, an open agenda and at least an attempt to reach a settlement within a year. Both sides agreed to put this schedule to their respective governments. Mr Ros was adamant that he have a reply within a month.

Mr Luce emphasised that any solution would require the acquiescence of the islanders and he therefore appealed to Mr Ros to reduce the domestic temperature on the issue. It would only harden the Falklanders' antipathy. Mr Ros accepted this plea. The talks ended with a communique mentioning their "positive and cordial atmosphere". It is believed that on his return to Buenos Aires Mr Ros was all but disowned by the junta. The press campaign was stepped up with yet more invasion fever.

The Falklands go critical

Mr Luce went on to Washington for talks with the Latin American assistant secretary of state, Mr Tom Enders, over the then more pressing issue of El Salvador. Since Mr Enders was just leaving for Buenos Aires, where he was eagerly soliciting General Galtieri's support in central America, Mr Luce asked him to intercede with the junta for calm over the Falklands. Mr Enders agreed, though he apparently found the whole subject a distraction.

Returning to London from Washington and hearing of Mr Ros's reception in Buenos Aires, Mr Luce was extremely worried, and conveyed this worry to Lord Carrington. The Falklands dispute now went critical. What is already apparent is that neither Mr Luce nor Lord Carrington

felt the situation justified a formal request to the cabinet's OD committee for a tripwire or deterrent force. There appear to have been two reasons for this, both clearly crucial.

The first was the absence of intelligence data on which such a request might be based. To support a request for defence movements the foreign office would have needed the support both of its own political information machine and of the Joint Intelligence Committee (JIC), working through the cabinet office. The former would have come from the embassy in Buenos Aires, from the New York negotiating team of Mr Fearn (head of the South America department), his subordinate, Mr Colin Bright, as well as from the superintending under-secretary, Mr John Ure. All of these were well acquainted with the Falklands dispute.



Luce: buying time

The Joint Intelligence Committee represents a different institutional channel. It is a committee of officials within the cabinet office, chaired at the time by Sir Antony Acland, the deputy head of the foreign office. Sir Antony was away for part of this period preparing himself to take over from Sir Michael Palliser as permanent secretary of the foreign office. His place would have been taken by Mr Patrick Wright.

The JIC includes the head of the cabinet office security and intelligence secretariat, Sir Antony Duff, and the head of the secret intelligence service. It is not part of the foreign office and is quite capable of taking an independent view of foreign office inputs. Yet it is the decisive filter of intelligence information for busy ministers on the OD committee.

Early in the week, its subcommittees known as CIGs (current intelligence

groups) meet to assess the yield from all sources, open and clandestine, for their area. This first stage of processing the raw material is supervised by Mr Robin O'Neill, a diplomat on secondment to the cabinet office. The CIG covering Latin America is chaired by Brigadier Adam Gurdon and includes officials from the secret intelligence service, the government communications headquarters (the supplier of signals intelligence) and the ministry of defence's intelligence organisation.

On Wednesday mornings, the full JIC meets in the cabinet office to pull all the strands together into a 10- or 12-page document known as the "Red Book". The Red Book is divided into two parts, the first contains brief summaries of activities in the world's trouble spots and is seen by all ministers on OD; the second is a confidential annex fleshing out the detail, including, sometimes, pieces of raw intelligence such as a particularly revealing decode. This goes to a handful of ministers who are deemed to need to know. The Red Book is printed overnight and delivered to ministers on Thursdays. It was this procedure that alerted Mr Callaghan to the 1977 invasion threat.

Mrs Thatcher's inquiry will be particularly interested in the CIG "assessment" of Argentine information and intelligence in the eight weeks prior to the invasion. Intelligence sources have been quick to argue that their raw material was far more alarmist than the much blander assessments of it reaching ministers. It is known that these assessments played down the invasion threat. They drew on the old-hat nature of the threats, General Galtieri's preoccupation with domestic issues, improved relations between his regime and Europe and America, the "cordiality" of the New York talks and their one-year deadline. This was used to explain even the statement issued in Buenos Aires on March 3rd that the regime was about to "seek other means" of regaining the Falklands. This statement itself suggests the junta had not yet made any decision to invade—or it would surely not have issued it. Indeed, there is no reason to suppose any of these assessments (up to the invasion week) were any more wrong than they would have been at any stage in the preceding year. Everyone at the New York talks thought the British had at worst "bought another year".

The second handicap facing ministers was the climate within Whitehall at the time. Bluntly it was of a total obsession with money. The foreign office was itself under treasury pressure, but the ministry of defence was under perpetual siege. Many of these budgetary wrangles, particularly over the future of the surface

fleet, were fought out in the same overseas and defence committee (with the prime minister in the chair) as would have to approve a tripwire force. To have gone to the OD committee with a request for yet another precautionary expedition to the Falklands would have required more than circumstantial evidence. And this was not available until March 29th, the Monday before the invasion. At the beginning of March, it would probably have been laughed out of court.

Under the circumstances, Mr Luce, with support from Lord Carrington, confined his request to a plea, through the cabinet office, to announce the postponement of the withdrawal of *HMS Endurance*, the Antarctic survey vessel then on patrol in Falkland waters. Mr Costa Mendes is known to have regarded this withdrawal as deeply significant. It took two weeks of departmental pressure to achieve even this concession and then only in response to an apparently random incident which occurred on March 19th. A group of scrap metal merchants landed on South Georgia to clear some installations (for a British company). In doing so they raised Argentina's blue and white flag. This does not appear to have been done with the Argentine junta's foreknowledge, with the possible exception of the navy chief, Admiral Jorge Anaya, architect of the eventual invasion. Finally the foreign office was allowed the despatch of *Endurance* with a detachment of 21 marines from Port Stanley, where it happened to be on a visit, across to South Georgia.

British concern was registered in a series of protests and meetings between the ambassador, Mr Williams, in Buenos Aires and Mr Costa Mendes (already emerging as the evil genius of the Falklands crisis). At these, Mr Costa Mendes assured the British he would send a ship to take the men off. The foreign office, eager not to appear provocative, kept the marines aboard *Endurance* off South Georgia for a full week waiting for him to fulfil this promise. Mr Costa Mendes's ship turned out to be three warships, and *Endurance* was forced to the ignominy of retreat.

The continued inertia of the OD committee (supported by the treasury and defence ministry) now becomes extraordinary. It is serviced by the foreign section of the cabinet office under a senior civil servant, Mr Robert Wade-Gery (who was away the week of the invasion). Its warning system is the material fed to it the JIC, which by now should have been issuing daily updated assessments of its Buenos Aires traffic. However, foreign office ministers might be a Falklands invasion, lack of support within the "alternative foreign

office" in the cabinet office building over the road would be a severe handicap.

The first signs that the cabinet office and Downing Street were taking the situation in Buenos Aires seriously appear to have been on the Monday of invasion week. By then hints were pouring out of Argentina in a torrent. Newspapers had put their correspondents worldwide on the alert. Diplomats had been told to cancel their leave. The Uruguayans had asked if any Falklanders wanted to be lifted off by air "before the invasion". It was the Uruguayans, intriguingly, with whom the Argentine fleet had been sailing "on manoeuvres" the week before the start of invasion week.

Confronted with what might be termed "hard" evidence of a threat, the cabinet machine at last acted swiftly. On Monday a submarine plus support ships were despatched from the Mediterranean to the South Atlantic. The Americans and the British now share the view that on the Monday even the junta itself had not chosen definitely to invade. It was merely a political option, supported by the navy and by Mr Costa Mendes's conviction that, provided it could be non-violent, there would be little or no international or British reaction.

They had signalled one deadline in Mr Ros's request for a reply "in a month" in New York. But the triggers appear to have been: the extraneous incident on South Georgia, the removal of *Endurance* from Port Stanley to South Georgia taking with it a proportion of the marine garrison, Peronist demonstrations at home, the fact that the fleet was already at sea and the need to forestall any British ships which might be sent in response to invasion rumours. These rumours were current by the Tuesday of invasion week, but this still left plenty of time for Admiral Anaya to get General Galtieri's clearance and make his two-day dash to Port Stanley. It is believed that the air force commander, Brigadier-General Lami Dozo, was not informed in advance.

At any rate, by the time Mrs Thatcher summoned her first crisis meeting on the Falklands on the Wednesday night, it was clearly too late for Britain to deter with more than words. America might conceivably have stopped the invasion with a clear message to the junta of where, in a military struggle, its sympathy and material support would lie. Instead President Reagan merely pleaded with General Galtieri after the invasion was in train, to no avail. The Argentines had launched precisely the operation the foreign office (and the ministry of defence) knew they could not resist: a sudden invasion without prior ultimatum and with insufficient advance telegraphing for a tripwire force

to be placed on station.

Critics of the foreign office will of course claim there were signals enough. From the moment of Mr Ridley's experience in the house of commons on December 2, 1980, through to the naval manoeuvres, the onset of winter, the instability of the junta—all were signals of sorts. True they were "soft" signals which could be countered by experienced intelligence claiming to have seen them all before. But the charge will be that Britain employs experienced people precisely not to make such misjudgments. Mr Costa Mendes was basing his strategy on minimum force and on the belief the British had lost the will to fight back. Even a submarine would have made a lethal tripwire, enough to make the junta think twice.

Politicians or foreign servants?

The foreign office can say that the tripwire theory could never have worked in the Falklands in extremis. Any force of sufficient size to forestall invasion would have been noticed and precipitated invasion if one were planned. A force too small to be noticed—say, one submarine and two frigates as in 1977—would not have stopped a desperate and determined junta. Besides, say the diplomats, the state of Argentine politics meant Britain would have had to keep a tripwire force on station indefinitely. And even so, it would merely have postponed an issue which one day had to be resolved. This dispute was never going to subside. And since no government had shown itself prepared either to turn the Falklands into a full military base or settle with Argentina, diplomacy was given the job of bluffing—for 17 years.

Successive governments had withdrawn the iron fist of British naval power from within the velvet glove of diplomacy. Yet an apathetic house of commons had continued to pretend that in the case of the Falklands this really did not matter. Meanwhile, ministers had created a climate of opinion in Whitehall in which the merest suggestion of extraordinary expenditure was regarded as anathema. The proper interrelation of diplomacy and defence—the protection of the nation and its interests—had become distorted into an exercise in Marks & Spencer cost-control.

The Falkland Islands policy of successive governments has for years been militarily untenable and inconsistent with any desire for retrenchment. Yet ministers never dared tell the house of commons this and prayed the painful moment could be put off for someone else to deal with.

2. Let's not tax away incentive

Historical perspective makes it amply clear that America's energy crises of the '70s could have been resolved with less pain if this country hadn't been overdependent on imported oil. This overdependence was intensified by government policy which kept a tight lid on prices American producers could charge, thus depriving them of much of their incentive to explore for and develop new resources. Over the last two years oil prices have been decontrolled, and the results have been increased drilling activity and new domestic production.

The lesson that the marketplace works is one we, as a nation, should have learned. But have we? It appears not. At this very moment, not only Congress but also a number of states are contemplating new tax burdens aimed directly at the oil industry. And they're doing it in disregard of declining oil-company profits.

During the first three months of 1982, earnings of the nation's leading oil companies dropped 30 percent from the corresponding 1981 quarter and return on investment declined 35 percent.

Those missing profits are extremely important. In 1981, the U.S. produced about 3.1 billion barrels of oil, or about 12 percent of the estimated proved U.S. reserves that existed at the start of the year. If this country is to continue producing oil at such a rate without exhausting its known reserves, domestic producers will have to make capital investments estimated by Bankers Trust Company at more than \$700 billion between now and 1990 to replace what's being used. They can do this only if they have the prospect of sufficient earnings to justify a program of this scope—and only if these earnings aren't taxed away before they can be invested in new exploration and development.

Today, as a result of recession, diminished oil consumption, and lower profitability, oil companies have already been forced to trim their capital expenditures for exploration and develop-

ment. Over the long haul, this doesn't bode well in the event of some new, unforeseen disruption in the flow of the Free World's oil supply.

Yet, Congress is considering a plethora of new taxes to be levied specifically on oil companies. And some 21 states have enacted or considered a variety of taxes to be levied specifically on oil companies—either on their incomes or, in some cases, even on the amount of business they do regardless of whether that business is profitable or not. Some states have gone so far as to ignore traditional revenue practice (taxing income earned by businesses only within the state) by taxing the worldwide income of oil companies (and sometimes only some oil companies).

The oil industry is increasingly being turned over for new taxes. Federal taxes alone, paid by leading oil companies, including income and "windfall profits" taxes, skyrocketed from \$14 billion in 1980 to \$25 billion last year. This amounted to a tax rate of about 57 percent, compared with 38 percent for all other industries.

If additional taxes on energy are deemed the best way to discourage consumption and defray necessary costs of federal and state governments, then they should properly be collected at the retail level—not at the production stage. Levying taxes at the production stage raises the energy cost ingredient of American-made manufactured goods, with the result that U.S. manufacturers find it harder to compete abroad and, in effect, American jobs are lost to overseas competition.

Taxing away the incentive to find more domestic oil serves only to increase American dependence on imports. This, in turn, will continue to skew this country's foreign trade balance, delay economic recovery, and possibly leave us hostage once more to any future dislocations of world oil supplies.

Isn't it about time we learned this lesson?

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82-1755

SUBJECT: (Optional)

Comments on The Economists' Account of Misjudgments on Falklands

FROM:

[Redacted], Vice Chairman
National Intelligence Council

EXTENSION

NO.

DDI/NIC #5649-82

DATE

9 July 82

TO: (Officer designation, room number, and building)

DATE

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COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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